

GOVERNOR GARY LOCKE

STATEMENT OF PRINCIPLES FOR RESTRUCTURING THE ELECTRIC POWER INDUSTRY

March 25, 1997

Washingtonians have benefited from electricity prices that are among the lowest in the nation. Now, there is national, regional, and state-level interest in transforming the electric power industry from a monopoly-based system to an open, competitive market. This is a large and complex subject that affects every electricity consumer in our state, whether a rural farmer, an urban family, a small business or a large industrial user. It has deep implications as well for our public and private utilities, our environment, and all who enjoy or depend on our river systems.

As we participate in the restructuring of the electric industry, we should proceed cautiously and deliberately, with the goals to:

- **Recognize and balance the multiple uses, benefits, and claims on our natural rivers.**
- **Preserve low-cost electric power for Washington consumers.**
- **Foster real competition and efficiencies in producing and delivering power, with benefits that are fairly distributed across all sectors of Washington consumers.**
- **Fairly distribute reasonable "stranded costs" that cannot otherwise be recovered in a competitive market.**
- **Build into the competitive system shared benefits and responsibilities, such as reliability and safety of electric service, environmental quality, conservation of electricity, encouragement of renewable resources, and affordable service for geographically remote and low-income consumers.**

These essential elements are all tied to each other, and any comprehensive restructuring must move these elements together in an integrated and balanced way. Achieving balanced, integrated, and comprehensive restructuring is particularly challenging because it requires action and cooperation at the state, regional, tribal, and federal levels. Nevertheless, with careful crafting, we in Washington can proceed with our part, if we adhere to the following principles:

Principle 1: All Washington residents must have access to basic electric service at a reasonably affordable price.

Electric service is a requirement of modern life. The development and expansion of Washington's unique electric power system was guided in part by an effort to ensure service in large portions of the state where private markets would not otherwise reach. With competition come some risks that costs and benefits will be unevenly distributed, or worse, that some customers will receive inadequate service. Rural and low-income customers are the most susceptible to these risks. All Washington residents should have access to basic electric service at a reasonably affordable price. Toward this end, a restructured system must include a strong commitment to weatherization programs for low-income households and programs to assist low-income households in paying for their electricity.

Principle 2: Electricity service in Washington must remain safe and reliable.

Washington's homes and businesses rely on a dependable flow of electricity. Responsibility for the reliability of the transmission system should be vested in an independent, federally regulated grid operator, with some coordinated review by the states. Local electricity distributors should be responsible and fairly compensated for safe, reliable delivery to retail customers. Customers with extraordinary reliability requirements should bear the cost of meeting those additional requirements, and customers who need less reliable service should be able to buy it at a lower price.

Principle 3: Unavoidable costs of the existing power system must be shared fairly.

In a competitive market, electricity suppliers may be unable to recover some of the costs that they responsibly incurred in fulfilling their obligations to serve customers under the existing system of monopoly regulation. Utilities should have an opportunity to recover reasonable "stranded costs" during the transition to competition. Bond obligations must be honored. The method of recovery must avoid unfair cost-shifting among customers. At the same time, utilities should have incentives to mitigate these costs. Also, stranded-cost recovery should not discourage the introduction of new, more efficient energy technologies. Fair and clear procedures and methods for determining stranded costs are necessary components of any comprehensively restructured system.

Principle 4: All users of Washington's electric power system must share in systemwide benefits and obligations that promote efficiency, conservation, renewable sources of energy, and environmentally sound practices.

Even as we move toward competition among buyers and sellers of electricity, we must fulfill the shared responsibilities that are inherent in a reliable, fair, environmentally responsible electric power system. Our "Northwest advantage" of inexpensive, reliable power is largely a product of our collective efforts to build, maintain, and pay for the Columbia River Power System. If we want to maintain the benefits of the Columbia system for the Northwest, we must share in the costs of repaying the original investments that built that system and of restoring the Columbia's fish and wildlife. We also have opportunities to make investments that sustain the system's productivity for new generations of electric consumers. These opportunities include investments in energy efficiency, new renewable resources such as wind, solar and geothermal power, and system reliability. These "system benefits" should be funded through a collective charge shared by all consumers, independent of their choice of electricity supplier.

Principle 5: Washington should honor its tradition of locally controlled public power.

Many Washington citizens receive electric service from locally governed electric utilities. While effective competition requires statewide standards, restructuring should recognize and affirm our commitment to local control. At the same time, if public power utilities are granted exemptions or delays in implementing open access, they must reciprocate by limiting their marketing of electricity to their traditional customer base. They also must meet statewide minimum investment standards for energy efficiency, renewable resources, and low-income programs.

Principle 6: Tax policy in the new competitive market must be equitable among users and suppliers of electricity, and must adequately contribute to state and local revenues.

The electric industry, like all commercial activity, should continue to shoulder a fair share of the cost of maintaining safe, healthy communities. Unless we revise our tax laws, new arrangements for in-state and out-of-state sales of electricity will have unintended tax consequences, including loss of state and local revenue, and unfair competitive advantages for some buyers and sellers. As suppliers and customers participate in the competitive market, they should be subject to taxes that are equitable among users and suppliers of electricity and that preserve or adequately replace state and local revenues.

The restructuring of our electric industry is a large and challenging task. Guided by these principles, we can meet that challenge and serve the interests of all Washingtonians.